Annual Report 1996

CrownLife®

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Real people, real lives: photography in this Annual Report illustrates the relationships we build with our customers.
All photographs feature Crown Life customers and Crown Life people.
Front cover: Success based on Crown Life's strong connections to our customers, to our diverse markets and to the future

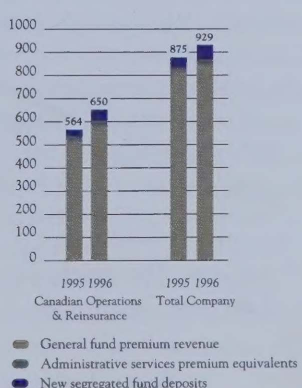
corporate profile

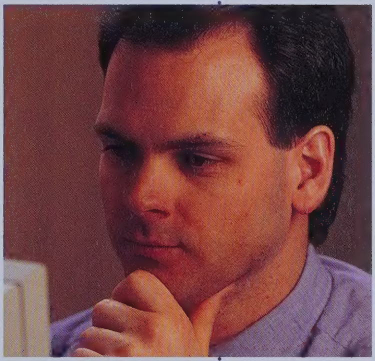
Founded in 1900, Crown Life Insurance Company ranks among the top six per cent of North American life insurers. We provide quality financial products and services across North America and in selected international markets. Crown Life offers life insurance, health insurance and pension programs on a participating and non-participating basis to individuals and groups, and reinsurance services to other insurance companies.

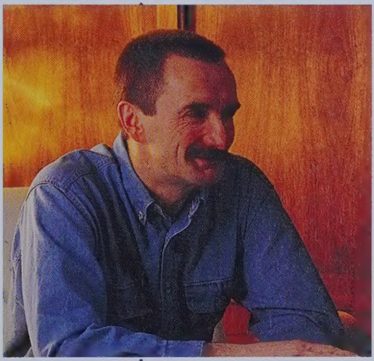
The major shareholders of Crown Life are HARO Financial Corporation of Regina, Saskatchewan, which owns 64 per cent of the Common Shares of the Company, and Extendicare Inc. of Markham, Ontario, which owns 32 per cent. The Company's Common and Class I Preferred Shares trade on The Toronto Stock Exchange and on The Montreal Exchange.

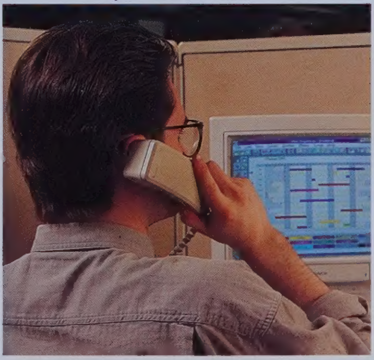
Business Volumes

(in $ millions)









An outlook centered upon strengthening our links to customers, helping them attain their financial goals

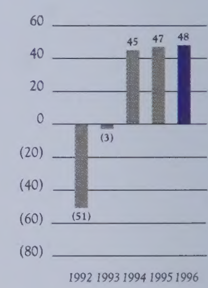
matching commitment with results

SOLID ACHIEVEMENTS... CUSTOMER CONNECTIONS... A FOCUS ON THE FUTURE.

Net income of ***$48 million***, sales increases, growth in premium revenue, and improved asset quality - our operating results for 1996 reflect another year of achievement for Crown Life. Results for the last three years represent three of the four best years in our 96-year history.

Net Income

(in $ millions)



This solid progress has been recognized by four rating agencies in an environment where very few life insurers in North America have received rating upgrades. During the year, Standard & Poor's, Moody's Investors Service, Dominion Bond Rating Service and TRAC Insurance Services have all raised their ratings for Crown Life.

One of the highlights of 1996 was our acquisition of Aetna Canada's group pension business. Pension plan administration and investment management for over 340 clients, representing more than 20,000 plan participants, was transferred to Crown Life in November 1996. This acquisition brings assets under management in our Canadian group pension business to over ***$1 billion***. Group pension business provides substantial growth opportunities. The acquisition demonstrates Crown Life's commitment to expanding our share of this market.

At the end of 1996, our ratio of capital resources to liabilities was ***13.6 per cent***. This capital ratio is among the highest of the large Canadian life insurers.

Embracing the opportunities and challenges of change, Chairman, **Paul Hill** (l), with President and Chief Executive Officer, **Brian Johnson**

Customer Connections

At Crown Life, our emphasis is on building strong connections with our customers. An aggressive program of systems renewal across our operations is aimed at strengthening the communication links to our customers and sales associates. New technology will enhance efficiency and ensure that we are prepared to meet the challenge of change. Our expanding network of experienced, professional sales associates, and strategic alliances with other financial organizations, are broadening our market connections and affirming our relationships with existing customers. Our products and services are tailored to match the complex and changing financial planning needs of our customers. Our progress is reflected in increased sales across our business units. In particular, in 1996, business volumes in our Canadian and Reinsurance operations rose 15 per cent over 1995.

Positioned to Capture the Future

The insurance industry is intensely competitive. Continuing consolidation within the industry can be expected. Successful, thriving companies will have a solid capital base, efficient insurance operations and a clear focus on the customer. Crown Life is well-positioned to capture the opportunities that are evolving in our changing environment.

We are pleased to welcome as a Director in 1996 former United States Ambassador to Canada and past Governor of Michigan, James Blanchard, of Beverly Hills, Michigan. We extend the appreciation of the Board to James Palmer, Q.C., of Calgary, Alberta, who retired in August after 17 years of service as a Director. His association with Crown Life will continue through his appointment as an Honorary Director.

During 1996, three new Officers of the Company were appointed: John Manistre, Vice-President and Appointed Actuary; Daniel Martineau, Vice-President, Underwriting and Pricing, Group Operations; and Chris Selness, Vice-President and Program Director, CrownVista.

On behalf of the Board, we recognize the professionalism of all Crown Life employees and sales associates and thank them for their enthusiasm and commitment to building better futures for our customers, for our shareholders and for Crown Life.

Paul J. Hill
Chairman

Brian A. Johnson
President and Chief Executive Officer

Committed to building strong connections with customers, members of Crown Life's Senior Management Team, (l to r) Pamela MacIntyre, Gareth Evans, Mark Ripplinger, John Harrison, Bill Heidt, John Manistre and Alan Rowe

connected

The pace of our market is accelerating and our customers' expectations are increasing. We gladly meet these challenges with expert advice, solid products and outstanding service.

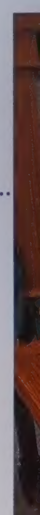
The pace of change in the financial services market is accelerating. Our customers have high expectations and our clear responsibility is to deliver advice, products and services that help them manage their diverse and changing needs.

Responsive Service

In 1996, we again demonstrated Crown Life's customer focus through new and enhanced products and responsive customer service. We question assumptions and traditional processes, constantly seeking ways to make doing business with Crown Life easier and more convenient. Most importantly, we ask our customers how we can meet their expectations and add value...and we listen to their answers.

We constantly question assumptions and traditional processes

to customers



We continuously solicit feedback and monitor service standards through our Service First and Quality Business units and through formal studies undertaken on our behalf by research and industry specialists. Before we launched Crown Futura 3000, our individual life insurance product with

tax-sheltered investment options, we consulted with our agents and customer advisory panel. Their input ensured that the product and its marketing materials provide the features they want.

Our group life and health clients tell us that their primary concern is to contain the costs of plans while delivering the benefits that are so important in attracting and retaining a high-quality workforce. Our Managed Disability Care program is designed to focus on early intervention, co-ordination and management of disability claims and to help employees get back to work.

In our Pension & Investment Management Operations, we responded to our clients' interest in a greater diversity of investment management styles by introducing five new fund managers during 1996. We now offer the choice of seven fund managers with differing investment styles, as well as the funds managed by our own subsidiary, Crown Life Investment Management Inc. In 1996, CLIMCO continued to achieve above average returns in the segregated Canadian equity and bond funds. Returns for the year were 28.7 per cent in the equity fund and 13.2 per cent in the bond fund.

We also expanded our plan members' Retirement Education Program. This includes education seminars, informative printed material and a quarterly newsletter. Delivered on site at our clients' workplaces, the program provides information that employees need to plan for their financial security during retirement.

Seeking ways to make doing business with Crown Life more convenient

Expanding Network

The first point of connection with most of our customers is through our sales associates, so an important element of our business growth strategy has been the expansion of our sales networks. Our Pension & Investment Management division invests globally, but experienced sales and service representatives all across Canada work locally with our clients.

Across Canada, Individual Insurance Operations continues to attract professional sales associates and producer groups, many of whom are drawn to Crown Life's entrepreneurial style. In the United States, this business unit has been expanding its Personal Producing General Agent network and strengthening connections with the middle-income market.

Crown Life Sales Leaders for 1996

Individual Insurance Operations:

Agent of the Year:

Jaymie Bongard, Independent Insurance and Financial Services

Agency of the Year:

Bahamas Agency

Group Operations:

Alan Mileham, Regional Sales Manager (Prairie Region)

Lori Burt-Hutton, Senior Group Sales Representative (Toronto)

Pension & Investment Management Operations:

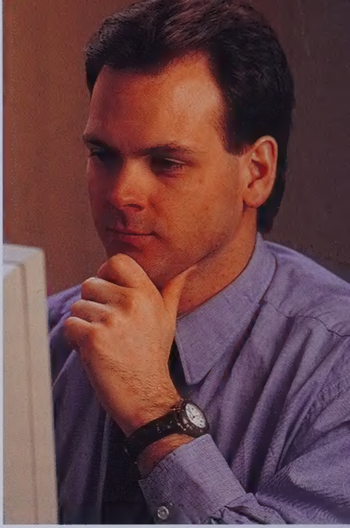
Andrea Reilly, Sales Representative (Montreal)

Ed Walter, Senior Sales Representative (Vancouver)

Reinsurance Operations:

Janice Barnes, Sales Vice-President

Howard Bernstein, Sales Vice-President



Providing professional advice, sound products and outstanding service

Market Opportunities

Strategic alliances with other organizations are also creating new links to expanding markets. In July 1996, we commenced marketing Crown Life individual insurance products to credit union members in Western Canada through the CUMIS MemberCARE network.

Crown Life's Group Life and Health Operations underwrites Panther Select out-of-country medical emergency and evacuation insurance, sold through the Canadian Grey Panthers.

Premium revenue in our Group Life and Health Operations grew over 10 per cent in 1996. This reflects a substantial increase in sales plus good retention of existing clients – evidence of their satisfaction with our products and services.

The success stories within this division have been the continued expansion of our sales to small to medium-sized group clients as well as sales within our Prairie Region, where we established strong associations with public sector organizations.

During the year, we developed an aggressive sales and marketing approach to increase Crown Life's exposure in the United States reinsurance market. Sales increases in both regular and special risk reinsurance are the result of our solid understanding of these markets and long-standing links with both intermediaries and clients.

In 1996 we successfully relaunched our Pension & Investment Management Operations in the Canadian market. Sales increases in this division can be directly linked to the strong relationships we have built with brokers and consultants. We believe that there are significant growth opportunities in this market for Crown Life.

We help our customers achieve their personal financial goals

Trust and Integrity

The relationships we build with our customers are based upon trust and integrity. These qualities, together with concern for all our policyowners, are at the foundation of our philosophy. An example of this responsibility was the settlement agreement reached in November 1996 with a class of U.S. policyowners who had been sold their policies on a "vanishing premium" basis primarily in the 1980s. We do not believe that we were involved in any inappropriate sales practices, but reaching a settlement is in the best interests of all our policyowners. By not engaging in time-consuming and costly litigation, we can focus more closely on our priorities of customer service and business growth.

The power of combined personal and corporate efforts

Community Ties

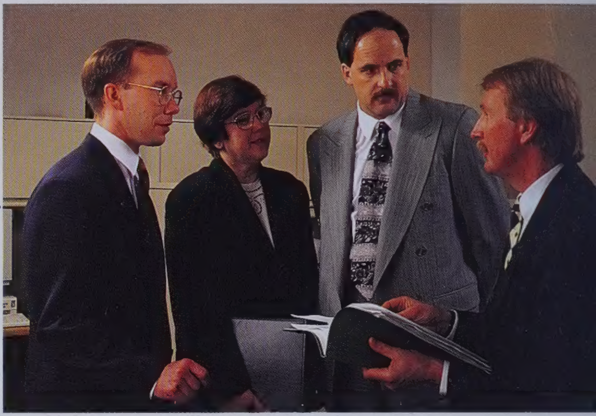
In 1996, we affirmed our long tradition of building better futures in our communities. We were involved in over 100 sponsorships as well as making many charitable donations, embracing personal and community wellness, culture and sport. We continued our role as Official Insurer to Canada's Olympic Team for the 1996 Olympic Games in Atlanta. This sponsorship enabled us to express our own commitment to the Olympic ideals of teamwork, excellence and continuous improvement.

Ten years ago we first sponsored a Canadian Special Olympian. In 1996, our Special Olympian was Elizabeth Longo, who competes in softball and 5-pin bowling. We also underwrote the group insurance plan for the Canadian Special Olympics. This organization represents a personal as well as professional involvement for Crown Life employees and associates, who play key roles in the Sports Celebrities Festival and on the National Advisory Board.

For the fourth year in a row, in 1996, Crown Life's employee and Company gifts represented the largest contribution to the United Way of Regina, demonstrating the power of combining personal and corporate fund raising efforts. It is through activities such as these that we are building better futures in our communities.

Builds better futures in our communities

connecting



Leaders of systems projects within our business units develop solutions for the future

Technology is the enabler. It improves processes and provides easy access to information. It automates manual tasks, so our staff can provide better service and be more responsive to our customers. Technology also helps us to develop sophisticated, flexible products and bring them to market quickly. Systems renewal is key to meeting the challenge of change and fulfilling our customers' high expectations.

In 1995, our priority was to renew and strengthen our systems infrastructure as well as our corporate application systems. Our focus now centres on the systems within our business units that connect us to our customers and sales associates.

Links Through Technology

During 1996, we completed the implementation of a new special risk administration system in our Reinsurance Operations plus an electronic data interchange for regular reinsurance received business. In our Pension & Investment Management division, PACE (Pension Administration Consolidated Environment) technology is accelerating new business processing and increasing administrative efficiency for both existing and new clients. This new system enables us to expand our portfolio of products so that we can tailor plans to fit our clients' needs

Based on over 96 years of experience of helping customers build financial security

to the future

even more closely. Through PACE we are implementing an electronic fund transfer capability and an interactive voice response facility for plan participants. In our other business units three major programs are under way:

Our focus now centres on the systems within our business units that connect us to our customers.

Our Joint Adjudication System - JAS - is nearing completion. JAS integrates and automates many of the manual tasks associated with long-term disability claims processing for both group and individual clients. This automation will enable adjudicators to focus more attention on client contact and claims management.

Our CrownVista project replaces five Group Life and Health administration and claims systems and three databases. It will include on-line access to information and the potential for electronic data interchange in claims adjudication. CrownVista will also support market connections by increasing the product and pricing flexibility that enables us to target the large case market as well as small and medium-sized organizations.

One of the largest systems renewal projects undertaken by a Canadian life insurer is slated for completion in 1999. The scope of our ECLIPSE program in Individual Insurance Operations is wider than systems renewal. An integral part of the program is the move away from an organization based on sequential processes toward multi-functional teams, dedicated to serving customers in geographic regions. The new technology will replace our existing system, which was initially developed in the 1970s, and will automate manual processes. It will link with our Crown PASSport field marketing technology and involves the conversion of records for over 350,000 policyowners and 750 products.

Relationships

Technology provides useful tools in improving access to information and accelerating processes, but it takes people to build relationships. It is Crown Life people, their expertise and their experience, who are connecting with our customers and working with our sales associates to find new and better ways to deliver service excellence.

The life insurance market is an intensely competitive operating environment. Consolidation within the industry, demographic trends and developments in technology have contributed to an explosion of change.

The demand for retirement income and wealth transfer instruments, the shifting of responsibility for health care costs and the withdrawal of governments from the provision of financial safety nets present a wealth of long-term growth opportunities for a progressive organization.

Experience

The banking, insurance, trust and brokerage industries have each been making incursions into what were formerly others' territories. In 1996, the Federal Government announced that the use of bank branches to sell life insurance products should continue to be prohibited. The debate and lobbying continue. We believe customers are best served by professionals who understand the complexities of financial planning.

At Crown Life, our roots are in 96 years of experience of helping our customers to build financial security, but our focus is on the future. Our relationships are based on experience, independent advice and grass roots knowledge of our business. Our outlook centres upon strengthening our links to our customers and building long-term relationships, based on integrity, sound products and responsive services. At the same time, we are delivering increased value to our customers through enhancements in technology and operational improvements.

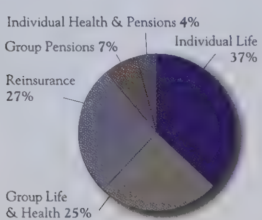
The 1996 financial results of Crown Life reflect growth and increasing net income. The financial highlights for the year were:

- total business volumes increased by six per cent, with premium revenue increasing by four per cent to $842 million and deposits to segregated funds increasing by 41 per cent to $62 million;
- shareholders' and participating policyholders' net income was $48 million in 1996, compared with $47 million in 1995;
- earnings per common share was $8.77, compared with $8.51 in 1995;
- mortgage loans were reduced to 32.3 per cent of total assets at December 31, 1996, from 36.4 per cent a year earlier; and
- capital ratios remained solid, with total capital resources at December 31, 1996 of $685 million representing 13.6 per cent of liabilities, further strengthened from the ratio of 12.6 per cent achieved at the end of 1995.

Crown Life continued the renewal of all its customer administration and corporate systems, the cost of which will moderate growth in net income for the next several years. The Company continued to make progress in resolving litigation involving participating insurance policies sold on a "vanishing premium" basis in the 1980s. In 1996, retained earnings of prior years was reduced by $45 million, reflecting the cost of settlements reached in the year. Under new accounting standards which come into effect for the year ending December 31, 1997, any such settlements in future years will be charged to net income in the year they are determined.

Premiums By Line Of Business

december 31, 1996



RESULTS OF OPERATIONS

TOTAL REVENUE WAS $1.3 BILLION. AN INCREASE IN PREMIUM REVENUE WAS OFFSET BY THE EFFECT ON INVESTMENT INCOME OF LOWER INVESTED ASSETS AND LOWER INTEREST RATES.

Premium revenue was $842 million, an increase of four per cent from $811 million in 1995. Growth was achieved in all Canadian lines of business and in Reinsurance Operations. These increases were partially offset by lower premium revenue in individual life insurance and pension operations in the United States where normal terminations exceed the current level of new sales. New deposits to segregated funds, which are reflected in the Consolidated Statement of Changes in Net Assets of Segregated Funds, also increased in 1996, by 41 per cent to $62 million.

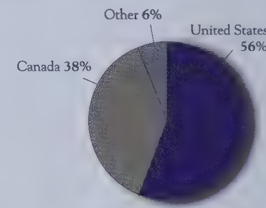
Individual life insurance products accounted for 37 per cent of premium revenue in 1996. Other premium revenue was derived from reinsurance (27 per cent), group life and health insurance (25 per cent), group pension products (seven per cent) and individual health and pension products (four per cent). Geographically, 56 per cent of premium revenue was generated in the United States in 1996, 38 per cent in Canada, and six per cent in other international operations. Compared with 1995, the mix of business increased for group life and health and reinsurance and for Canadian operations, reflecting the current strategic focus of the Company in achieving higher growth rates in these areas relative to other areas of operations.

Investment income was $458 million in 1996, compared with $508 million in 1995, reflecting a slightly lower base of average invested assets and lower interest rates. Investment income is net of $8.8 million (1995 - $4.8 million) in interest expense incurred on convertible subordinated debentures, the proceeds of which were received and invested in 1995.

Other revenue of $16 million in 1996 consists primarily of fee income for the management of segregated funds and "administrative services only" group health plans. The increase from $11 million reflects fees earned on higher funds under management.

Premiums By Territory

december 31, 1996



EXPENSES TOTALLED $1.2 BILLION. BOTH POLICY BENEFIT COSTS AND OPERATING EXPENSES DECREASED IN 1996.

Policy benefit costs were $954 million in 1996, compared with $981 million in 1995. The change is primarily attributable to the decrease in interest credited to group pension liabilities because of planned maturities of U.S. guaranteed interest contracts.

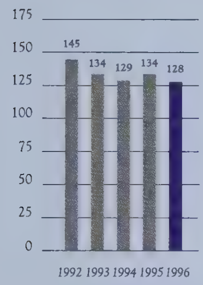
Operating expenses were $128 million in 1996, compared with $134 million in 1995. In each of 1996 and 1995, approximately $15 million was incurred or provided for new systems development.

Commissions and other selling expenses were $112 million in 1996, compared with $100 million in 1995. The increase results from higher levels of premium revenue.

Taxes, including taxes on premiums, income and capital, totalled $22 million in 1996, compared with $21 million in 1995. In 1996, total tax remittances to governments by the Company, including real estate, payroll, and sales taxes included in operating expenses, were approximately $40 million.

Operating Expenses

(in $ millions)



NET INCOME INCREASED FOR THE FIFTH CONSECUTIVE YEAR.

Net income for 1996 was $48 million, compared with $47 million in 1995. Net income in 1994, 1995 and 1996 represented three of the four best years in Crown Life's 96 year history.

Shareholders' net income was $39.4 million in 1996, compared with $38.6 million in 1995. Participating policyholders' net income was $8.5 million in 1996, compared with $8.3 million in 1995.

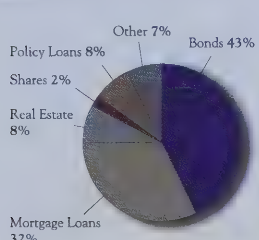
FINANCIAL POSITION

TOTAL ASSETS UNDER MANAGEMENT WERE UNCHANGED AT $6.6 BILLION.

Total assets under management at December 31, 1996 were $6.6 billion, unchanged from 1995. Total consolidated general funds assets were $5.8 billion at December 31, 1996, compared with $6.0 billion at the end of 1995. Segregated funds assets under management were $800 million, compared with $664 million a year earlier. The reduction in consolidated general funds assets resulted from scheduled maturities of U.S. guaranteed interest contracts, partially offset by the acquisition of the group pension business of another Canadian life insurer in 1996. Assets acquired in this transaction consisted of $175.4 million in general funds assets and $120.2 million in segregated funds assets.

Total Assets

december 31, 1996



Considerable progress was achieved in 1996 in improving the quality of invested assets. Mortgage loan investments were reduced to 32.3 per cent of total assets. Seven years ago, mortgage loan investments represented 44.0 per cent of total assets. Loans in arrears were at the lowest level in the past decade. The Company's bond portfolio had an average credit rating of AA.

Crown Life holds all of its assets directly. The Company's only operating subsidiary, Crown Life Investment Management Inc., has a nominal book value.

Traditional insurance products are backed primarily by fixed income investments, including publicly traded bonds, private placements, and mortgage loans, with durations and currency of assets matched to related insurance and pension liabilities. Portfolio management includes ongoing analysis and adjustment of credit quality, asset-liability matching and liquidity.

The Company makes limited use of derivative financial instruments. Their primary purpose is to hedge interest rate or currency positions as part of asset-liability management. The Company's exposure is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. Total replacement cost of all derivative contracts at December 31, 1996 was $5.9 million and counterparties had a credit rating of A or higher.

THE BOND PORTFOLIO HAD AN AVERAGE RATING OF AA.

At December 31, 1996, the bond portfolio totalled $2.5 billion, representing 42.8 per cent of total assets, compared with 40.1 per cent a year earlier. The portfolio included $1.7 billion of U.S. and Canadian government bonds. The Company has emphasized high-grade bonds, and only 2.5 per cent of the portfolio was rated below investment grade. No bonds were in default at December 31, 1996.

THE MORTGAGE LOAN PORTFOLIO WAS REDUCED BY 13.5 PER CENT IN 1996 AND THE QUALITY OF THE PORTFOLIO IMPROVED.

Mortgage loan investments at December 31, 1996 were $1.9 billion, representing 32.3 per cent of total assets, compared with $2.2 billion (36.4 per cent) a year earlier.

At December 31, 1996, U.S. mortgage loans represented US$1.1 billion (26.1 per cent of total assets), compared with US$1.3 billion (30.2 per cent) at December 31, 1995.

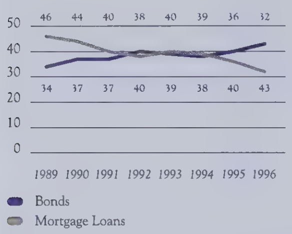
In 1996, the Company directed its efforts to significantly improving the overall quality of the U.S. mortgage loan portfolio. At year-end, U.S. mortgage loans in arrears 90 days or more, before specific provisions, were US$8 million, compared with US$25 million a year earlier. Arrears were at their lowest level in over a decade. The restructured component of the portfolio was reduced by US$66 million to US$172 million.

The U.S. mortgage loan portfolio consists of loans in 38 states. Property types are restricted to retail, office, apartments and industrial. Only eight loans exceed US$10 million, and the largest of these is US$15 million.

Canadian and other mortgage loans were $360 million at December 31, 1996 (6.2 per cent of total assets), compared with $369 million (6.2 per cent of total assets) at December 31, 1995. Canadian mortgage loans in arrears 90 days or more, before specific provisions, improved to $11 million at December 31, 1996, from $29 million a year earlier.

Bonds And Mortgage Loans As A Percentage Of Total Assets

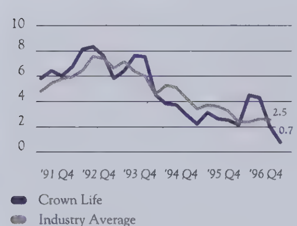
percentage



Crown Life's mortgage loan management practices have resulted in minimizing losses and maximizing returns possible in the difficult real estate environment of the first half of the 1990s. The Company will continue with its proven management practices which are based on early identification and aggressive management of problem loans. North American property values continue to improve. While the Company will continue to reduce its U.S. mortgage loan portfolio, it will selectively underwrite new mortgage loans in Canada in order to maintain an appropriate asset mix in the portfolio of Canadian invested assets.

US 60 Day Arrears Ratio

percentage of portfolio



Real estate investments were reduced by three per cent.

Total real estate was $486 million at December 31, 1996 representing 8.4 per cent of total assets, compared with $502 million (8.4 per cent of total assets) a year earlier.

Real estate held for investment was $397 million, compared with $414 million at December 31, 1995. Most real estate held for investment is located in Canada. U.S. properties have a book value of $57 million.

Properties acquired by foreclosure and held for sale totalled $89 million (1995 - $88 million). In 1996, foreclosed properties with a book value of $79 million were sold. Most properties acquired by foreclosure are in the United States.

As market conditions improve, the Company intends to reduce its exposure to real estate.

Adequate provisions exist for future credit losses.

At December 31, 1996, provisions for future credit losses totalled $45 million, compared with $85 million at the end of 1995. The reduction reflects credit losses charged to the provision during 1996 of $40 million, compared with $19 million charged in 1995. The increase in charges to credit loss provisions reflects the aggressive actions taken by the Company in 1996 to resolve problem loans. Given the reduction in such loans, a lower provision is appropriate. Provisions are expected to be adequate to cover credit losses anticipated in the next five years.

Liquid assets total $2.3 billion.

The Company matches maturities of assets and liabilities and a substantial portion of the bond portfolio is invested in readily marketable government bonds. The Company's cash position and high-quality bonds, together with other assets that can be liquidated within 45 business days, resulted in total liquid assets of $2.3 billion at December 31, 1996.

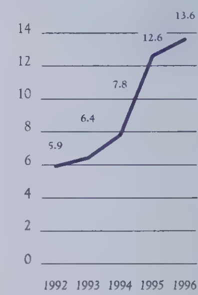
Certain policy liabilities of the Company have cash surrender values. Many policies provide for significant penalties on surrender which are a deterrent to surrender. The Company's current level of liquidity is strong given the profile of its liabilities and the probability of surrender.

The ratio of capital resources to liabilities was strengthened.

At December 31, 1996, Crown Life's capital resources totalled $685 million, compared with $662 million at the end of 1995. Capital resources included shareholders' equity of $442 million, participating policyholders' equity of $17 million, convertible subordinated debentures of $150 million, and deferred net gains realized on disposal of share and real estate investments of $76 million. These capital resources represented 13.6 per cent of liabilities, compared with 12.6 per cent at December 31, 1995. The 1995 ratio has been restated to reflect the cost of settling certain litigation charged to prior years' retained earnings.

Capital And Deferred Net Realized Equity Gains As A Percentage Of Liabilities

percentage



Preferred shareholders' dividends of $9 million in each of 1996 and 1995 were paid on the Company's Class I Cumulative Preferred Shares. Any decision to pay dividends on the Common Shares in the future and the amount of such dividends will be based on the Company's income, regulatory capital requirements and other factors deemed relevant by the Board of Directors.

Participating policyholders' dividends were $51 million in 1996, compared with $48 million in 1995. Dividends on policies within a class of participating policies are calculated using a method which reflects the difference between actual experience with respect to investment income, mortality, expenses, and policy termination, and the assumptions made as to that experience in the original calculation of the policy

premium. Classes of policies are defined and redefined from time to time by reference to policy factors, such as premium rates, or to experience factors, such as mortality, which may vary based on geographic location, risk selection procedures, or other factors. The methods used are intended to give consistent and equitable treatment to different classes and generations of policyholders.

The total amount of participating policyholders' dividends in a year also reflects the need to maintain a minimum level of surplus for contingencies and possible adverse future experience, as well as to finance future growth plans. The Insurance Companies Act permits the Company to transfer annually a portion of the distributed participating policyholders' income to shareholders' income.

Participating policyholders' retained earnings was reduced by $45 million as at January 1, 1995, representing the cost of settling certain litigation, including a class action on behalf of U.S. policyholders, regarding policies sold on a "vanishing premium" basis since the early 1980s. The litigation is more fully described in note 10 to the consolidated financial statements.

The foreign currency translation adjustment for shareholders and participating policyholders was $57 million at December 31, 1996, an increase of $2.5 million from the previous year. This increase resulted from the weakening of the Canadian dollar to Can$1.37 per U.S. dollar at December 31, 1996 from Can$1.36 at December 31, 1995.

The Office of the Superintendent of Financial Institutions Canada has developed regulatory capital standards for Canadian life insurance companies. Crown Life's existing capital resources satisfy these standards. In the United States, the Company complies with similar U.S. capital requirements.

COMPETITION AND RISK MANAGEMENT

Profitability of life insurance companies is determined by the design, pricing and management of products. Products must be accepted by the marketplace, have manageable risks, and have adequate allowances for benefits, expenses and profits.

The life insurance market will continue to undergo significant change.

The environment for Canadian life insurers is in a period of change. Competition in the industry in both Canada and the United States is intensifying. The intensified competition is caused by the availability of substitute product offerings from other financial institutions. In the pension market in particular, the lower interest rate environment of the 1990s causes consumers to seek alternate investment products to enhance returns. The intensified competition is causing consolidation within the industry and an increasing focus by insurers on expense reduction.

Growth prospects remain positive even though the market is in a period of change. Substitute product offerings increase consumer awareness of financial security needs and available insurance products, and thereby increase demand. In addition, the continued restructuring of government social programs has resulted in new opportunities for life and health insurance and pension services.

Crown Life has positioned itself to take advantage of these changing markets.

Crown Life's strategy is to target markets for life and health insurance and pension products for individuals and groups, as well as reinsurance services. The focus is on North American markets, especially Western Canada.

In individual insurance operations, Crown Life is targeting the market served by professional, independent, entrepreneurial agents. Dependable advice and excellent service are priorities in this market. The Company has a reputation as an organization capable of embracing the changes necessary to be competitive in the changing individual insurance market in Canada. As a result, the Company continues to recruit experienced sales professionals who have been affected by the dislocation caused by consolidation. These experienced professionals helped to generate growth in Canadian life and health insurance sales in 1996.

In the group life and health insurance business in Canada, Crown Life is focusing on employers with small and medium-sized work forces. Sales in this market have been increasing for the past several years. In addition, the Company will be seeking to add larger contracts in order to achieve greater economies of scale. In 1996, the Company's focus on the Western Canadian market resulted in winning a number of significant contracts to provide group life and health insurance benefits.

In pension operations, customers are seeking solid investment performance and the opportunity to diversify their retirement savings. Segregated funds managed by Crown Life Investment Management Inc., the Company's wholly-owned funds management subsidiary, have consistently performed better than benchmarks in the fund management business over the past several years. In 1996, five other fund managers were made available to Canadian group pension customers.

In order to increase the Company's assets under management and achieve greater economies of scale, Crown Life acquired the Canadian group pension business of another life insurer in 1996. The acquisition added $295.6 million to assets under management and increased

total assets under management in this division to over $1.0 billion at December 31, 1996.

In the United States individual life insurance market, the industry continues to take steps to reduce expenses and improve efficiency. Crown Life's emphasis is on the middle-income market. In 1996, the Company continued to appoint new distributors who operate in this market. Nevertheless, it will take some time to achieve significant levels of sales in the Company's U.S. operations. In the interim, a priority is retention of existing business through quality customer service.

The Company's reinsurance operations provide regular life reinsurance and coverages for special risks, such as excess medical coverage and catastrophe coverage. The principal market is small to medium-sized life insurers and special risk pools in the United States. Sales growth achieved in 1996 reflects the Company's excellent reputation in this market.

The changing insurance markets are also resulting in higher consumer expectations for service and product innovation. The life insurance industry is generally constrained by systems that were developed using technology of the 1970s and 1980s. Crown Life is undertaking a major program of systems renewal. The objectives of this program are to improve customer service, reduce costs, allow more rapid and responsive product development, and ensure the readiness of the Company's administration systems for the year 2000. The costs of systems renewal are charged to net income, and expenses at the levels of the past year are expected to continue for the next several years.

The Company has invested in new computer processing hardware and communications networks. In 1996, a project to replace the administration system for Canadian pension products was completed and all business was converted to the new system. New systems were completed for adjudicating and managing disability insurance claims, and for the electronic interchange of data with reinsurance customers. The administration systems for investments and human resources management have been replaced.

Ongoing projects include the replacement of administration systems in the group life and health insurance area, with completion scheduled for 1998, and in the individual insurance area, with completion scheduled in 1999. Improvements in technology used in the field for marketing are also ongoing.

Crown Life uses a disciplined approach to manage the risks inherent in its business.

Crown Life's continued financial strength and profitability are dependent on effective management of the risks inherent in all aspects of the Company's business. These risks are primarily product design, pricing and underwriting; investment credit risk; and asset - liability matching. Corporate policies exist with respect to each of these risks, with senior officers responsible for monitoring and managing the risk exposures. Regular staff training ensures that employees are aware of the latest knowledge and management practices with respect to the insurance business.

Product design and pricing are the responsibility of each business unit, with review and approval required from the corporate actuarial department for all significant products. Underwriting review ensures that acceptable risks are assumed for any particular sale and that the pricing reflects the underlying risk.

Investment credit risk is managed through documented investment policies which adhere to the prudent person standard. This standard requires that investments satisfy the return objectives and risk tolerance of the Company, proper due diligence is conducted, and invested assets are appropriately diversified. Senior officers are involved on a weekly basis in establishing investment strategy and approving investment transactions.

Asset-liability management ensures that invested assets are appropriately matched to the duration of the Company's liabilities. The objectives are to minimize the risk to the Company of changes in market interest rates and to meet current and future liquidity needs. In addition, the Company's policy is to match liabilities with assets denominated in the same currency to avoid exposure to foreign currency fluctuations. Senior investment and actuarial officers periodically review the matching of assets and liabilities and ensure that any necessary adjustments to invested assets are made.

Regular monthly reviews of each business unit's operating results are conducted with the business unit management teams by senior management. This enables timely monitoring of results and implementation of corrective action to address any deviations from Company objectives.

Crown Life's long-term business objective is to achieve sustainable, profitable growth.

At Crown Life, our mission is to build better futures for our customers through financial security. To meet this commitment, we provide sound financial products and advice and outstanding service. The priorities of the Company are growth in its core markets and continuous improvement in the quality of service provided to policyholders.

The consolidated financial statements are the responsibility of management and are prepared in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and changes in financial position of the Company within reasonable limits of materiality. All financial information in this annual report is consistent with that shown in the consolidated financial statements.

Management maintains accounting systems and internal controls to provide reasonable assurance that financial records are complete and accurate, financial statements are reliable, and assets are safeguarded against loss. The adequacy of internal control systems is monitored on an ongoing basis by an internal audit department which coordinates its activities with those of the external auditors.

The Appointed Actuary is appointed by the Board of Directors to carry out the valuation of the policy liabilities included in the consolidated financial statements. The Appointed Actuary makes use of the external auditors' work in the valuation. The Appointed Actuary's Report outlines the scope of the valuation and his opinion.

KPMG have been appointed external auditors. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Company's financial position and results of operations as shown in the annual consolidated financial statements. The external auditors make use of the work of the Appointed Actuary with respect to policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Brian A. Johnson
President and Chief Executive Officer

Alan M. Rowe
Senior Vice-President and Chief Financial Officer

Regina, Canada
11 February 1997

To the Policyholders and Shareholders of Crown Life Insurance Company:

We have audited the consolidated balance sheets of Crown Life Insurance Company as at December 31, 1996 and 1995 and the consolidated statements of operations, changes in financial position, and changes in net assets of segregated funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG
Chartered Accountants
Regina, Canada
11 February 1997

To the Policyholders and Shareholders of Crown Life Insurance Company:

I have valued the consolidated policy liabilities in Crown Life Insurance Company's consolidated balance sheet as at December 31, 1996 and their change in its consolidated statement of operations for the year then ended in accordance with accepted actuarial practice.

In my opinion, the valuation is appropriate and the consolidated financial statements fairly present its results.

The consolidated policy liabilities in the consolidated balance sheet as at December 31, 1995 and their change in the consolidated statement of operations for the year then ended were valued by another Appointed Actuary, who expressed an opinion without reservation on those policy liabilities and their change in his report dated February 13, 1996.

B.J. Manistre
Fellow, Canadian Institute of Actuaries
Regina, Canada
11 February 1997

consolidated statement of operations

(thousands of dollars)

years ended december 31	1996	1995
revenue		
Premiums	**842,495**	810,926
Investment income (note 3d)	**457,278**	507,740
Other	**15,753**	11,497
	1,315,526	1,330,163
expenses		
Policy benefits	**953,819**	980,789
Commissions and other selling expenses	**112,071**	99,807
Operating expenses	**128,489**	133,756
Taxes (note 7)	**22,314**	20,783
	1,216,693	1,235,135
income before policyholders' dividends	**98,833**	95,028
Participating policyholders' dividends	**50,901**	48,132
net income	**47,932**	46,896
net income is attributable to:		
Preferred shareholders	**9,135**	9,185
Common shareholders	**30,296**	29,406
Total shareholders	**39,431**	38,591
Participating policyholders	**8,501**	8,305
	47,932	46,896
earnings per common share (in dollars, note 6e)	**8.77**	8.51

On behalf of the board

Paul J. Hill
Chairman

Brian A. Johnson
President and Chief Executive Officer

consolidated balance sheet

(thousands of dollars)

december 31	1996	1995
invested assets (note 3)		
Bonds	**2,483,243**	2,391,571
Mortgage loans	**1,875,938**	2,169,054
Real estate	**486,263**	501,986
Shares	**85,568**	55,282
Loans to policyholders	**438,601**	447,540
Cash and short-term investments	**73,172**	46,797
Accrued investment income	**74,906**	77,977
Other	**28,076**	23,519
	5,545,767	5,713,726
other assets		
Premiums receivable	**38,274**	37,858
Amounts receivable under financial reinsurance agreements	**133,425**	142,526
Other	**82,850**	70,108
	254,549	250,492
	5,800,316	5,964,218
liabilities		
Policy liabilities (note 4)	**4,825,473**	5,011,602
Amounts payable under financial reinsurance agreements	**72,283**	70,078
Accrued expenses and other liabilities	**151,523**	175,351
	5,049,279	5,257,031
deferred net gains realized on disposal of invested assets (note 3c)	**141,787**	138,906
convertible subordinated debentures (note 5)	**150,000**	150,000
equity (note 6)		
Participating policyholders'	**17,404**	10,985
Shareholders'	**441,846**	407,296
	459,250	418,281
	5,800,316	5,964,218

contingent liabilities (note 10)

consolidated statement of changes in financial position

(thousands of dollars)

years ended december 31	1996	1995
cash provided by (used in) operating activities		
Net income	**47,932**	46,896
Decrease in policy liabilities	**(397,592)**	(642,001)
Sales and maturities of invested assets, net of purchases	**394,403**	517,938
Net change in other assets and liabilities	**(8,902)**	74,414
	35,841	(2,753)
cash provided by (used in) financing activities		
Common shares issued	**98**	-
Convertible subordinated debentures issued	-	150,000
Preferred shareholders' dividends	**(9,135)**	(9,185)
Preferred shares purchased for cancellation	**(429)**	(98)
	(9,466)	140,717
cash provided by investing activities		
Subsidiary companies sold	-	41,100
	-	41,100
increase in cash position	**26,375**	179,064
cash position, beginning of year	**46,797**	(132,267)
cash position, end of year	**73,172**	46,797

consolidated statement of changes in net assets of segregated funds

(thousands of dollars)

years ended december 31	1996	1995
net assets, beginning of year	**663,630**	751,876
increase during the year		
Amounts received from unitholders	**106,074**	209,576
Investment income	**32,359**	36,652
Net gain realized on sale of investments	**16,537**	35,837
Net unrealized increase in market value of investments	**49,988**	34,356
Year-end currency revaluation	**6,021**	-
Acquisition of group pension business (note 2)	**120,195**	-
	331,174	316,421
decrease during the year		
Amounts withdrawn by unitholders	**187,851**	387,879
Management fees and other operating costs	**6,950**	6,876
Year-end currency revaluation	**-**	9,912
	194,801	404,667
net assets, end of year	**800,003**	663,630
net assets of segregated funds consist of:		
Shares	**424,400**	305,155
Bonds	**280,006**	277,466
Mortgage loans	**33,182**	39,924
Real estate	**810**	2,618
Cash and short-term investments	**55,280**	34,024
Accrued investment income	**9,145**	7,333
Liabilities	**(2,820)**	(2,890)
	800,003	663,630

1 Basis of presentation

Crown Life Insurance Company develops, markets and administers life, health and pension products for individual and group customers, and provides reinsurance services to other insurance companies. The Company operates primarily in North America.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and in the notes which follow. The Company operates under the Insurance Companies Act which provides for the corporate governance of life insurance companies including distribution of capital and retained earnings.

Revenues and expenses of the Company's foreign operations are translated at average rates of exchange in effect during the year. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. The net amount arising on the adjustment of asset and liability balances to reflect current rates of exchange is included in participating policyholders' and shareholders' equity.

Certain contracts allow policyholders to invest in segregated funds managed on a fee basis by the Company for the benefit of the policyholders. Substantially all risks and rewards of ownership accrue to the policyholders. Segregated funds business is maintained separately, and is shown in the consolidated statement of changes in net assets of segregated funds. Segregated funds are carried at year-end market values.

Certain 1995 amounts have been reclassified to conform with the financial statement presentation adopted in 1996.

2 Acquisition of group pension business

On June 1, 1996, the Company acquired the Canadian group pension business of another Canadian life insurance company. The business acquired included assets under administration in both general and segregated funds of $295.6 million for more than 20,000 pension plan participants. Goodwill in the amount of $8.8 million is included in other assets and will be amortized on a straight line basis over 10 years. Goodwill was calculated as the difference between the net present value of the general account liabilities assumed of $184.2 million and the assets acquired of $175.4 million.

3 Invested assets

a Investments are accounted for on the following basis:

(i) Bonds

Bonds are carried at cost adjusted for amortized premiums or discounts and are net of specific provisions for credit losses. Net gains and losses realized on sales of bonds are deferred and amortized over the period to maturity of the assets sold. A decline in market value of any bond that is considered to be other than temporary is recognized immediately.

(ii) Mortgage loans

Mortgage loans are carried at outstanding principal balances adjusted for unamortized premiums or discounts and are net of specific provisions for credit losses. Restructured mortgage loans are adjusted for unamortized discounts representing interest concessions which are taken into account in determining the provision for credit losses.

Net gains and losses realized on the sale of mortgage loans are deferred and amortized over the term to maturity of the assets sold.

A decline in market value of any mortgage loan that is considered to be other than temporary is recognized immediately.

(iii) Real estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value is adjusted towards market value at 10 per cent each year. Net gains and losses realized on disposal are deferred and amortized to income at 10 per cent each year on a declining balance basis. Real estate acquired by foreclosure is carried at the lower of cost and net realizable value. A decline in market value of the portfolio that is considered to be other than temporary is recognized immediately.

(iv) Shares

Shares are carried at moving average market value whereby the carrying value is adjusted towards market value at 15 per cent of the unrecorded gain or loss each year. Net gains and losses realized on the disposal of shares are deferred and amortized to income at 15 per cent each year on a declining balance basis. A decline in market value of the portfolio that is considered to be other than temporary is recognized immediately.

(v) Derivative financial instruments

The Company uses derivative financial instruments where appropriate in the administration of its asset-liability management and to assist in the management of financial risks, including interest rate and foreign exchange risks. Derivative financial instruments are used primarily for hedging purposes and are accounted for on the same basis as the hedged item.

(vi) Credit losses

The Company maintains provisions for credit losses, including losses of principal and interest on bonds, mortgage loans and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans considered to be impaired and a general provision for other future potential credit losses.

The carrying value of loans considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered by the Company to be impaired, if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the market value of the property.

A general provision is estimated for other potential future credit losses and is included as a component of policy liabilities.

A charge is included in income in the year in which expected credit losses are identified. Any change in the estimated realizable value subsequent to the initial recognition of impairment is included in income in the period in which the change occurs.

b The carrying values, net of specific provisions for credit losses, and estimated market values of invested assets are as follows:

	1996		1995	
	carrying value	market value	carrying value	market value
Bonds	**2,483,243**	**2,594,000**	2,391,571	2,521,000
Mortgage loans	**1,875,938**	**1,964,000**	2,169,054	2,265,000
Real estate	**486,263**	**413,000**	501,986	405,000
Shares	**85,568**	**101,000**	55,282	59,000
Loans to policyholders	**438,601**	**438,601**	447,540	447,540
Cash and short-term investments	**73,172**	**73,172**	46,797	46,797
Accrued investment income	**74,906**	**74,906**	77,977	77,977
Other	**28,076**	**28,076**	23,519	23,519
	5,545,767	**5,686,755**	5,713,726	5,845,833

Market values for publicly traded securities are determined by reference to quoted market prices.

For bonds and mortgage loans which are not publicly traded, market values are calculated using expected cash flows discounted at current market interest rates for similar investments.

The market value of each real estate property held for investment is determined annually, primarily based on the net present value of estimated future cash flows, and an independent appraisal is obtained every three years. Net realizable value for real estate acquired by foreclosure and held for resale is estimated as the expected selling price less costs of disposal of each property.

Market values for loans to policyholders, cash and short-term investments, accrued investment income, and other invested assets are stated at carrying values.

(tabular amounts in thousands of dollars)

c Deferred net gains realized on disposal of invested assets consist of:

	1996	1995
Bonds	**63,758**	44,092
Mortgage loans	**2,253**	1,458
Real estate	**8,653**	19,053
Shares	**67,123**	74,303
	141,787	138,906

d Investment income was derived from the following sources:

	1996	1995
Bonds	**195,020**	209,083
Mortgage loans	**194,460**	240,241
Real estate	**27,679**	28,178
Shares	**2,446**	5,112
Loans to policyholders	**31,818**	32,273
Cash and short-term investments	**8,815**	4,610
Other	**429**	330
Amortization of deferred net gains realized and unrealized	**17,303**	16,475
	477,970	536,302
Interest expense on short-term debt	**823**	11,184
Interest expense on convertible subordinated debentures	**8,822**	4,835
Investment expenses	**11,047**	12,543
	457,278	507,740

e Investment income includes the amortization of deferred net gains realized on disposal of invested assets and the amortization of net unrealized gains (losses) on real estate and shares as follows:

	1996	1995
Bonds	**9,550**	10,584
Mortgage loans	**331**	255
Real estate	**(7,189)**	(8,722)
Shares	**14,611**	14,358
	17,303	16,475

f The notional value of derivative financial instruments is based on the principal amounts of the outstanding derivative contracts as follows:

	1996		1995	
	notional value	replacement cost	notional value	replacement cost
Foreign currency forward contracts	**136,792**	**6,889**	129,731	4,072
Interest rate swap contracts	**96,580**	**(305)**	54,400	871
Equity swap contracts	**33,904**	**(678)**	-	-
	267,276	**5,906**	184,131	4,943

The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. The notional principal amount of derivative financial instruments represents neither direct credit exposure nor market exposure. Replacement cost is the estimated cost of replacing all derivative contracts. The need to replace derivative contracts would arise only in the event that a counterparty did not honour the terms of a contract.

g Loans considered to be impaired (before specific provisions), specific provisions for credit losses, and general provisions for credit losses included in policy liabilities are as follows:

	1996		1995	
	impaired loans	credit loss provisions	impaired loans	credit loss provisions
Bonds	**1,300**	**1,300**	5,500	5,500
Mortgage loans	**118,662**	**24,200**	257,722	42,900
Real estate acquired by foreclosure		**11,900**		14,500
General provisions included in policy liabilities		**7,500**		21,800
		44,900		84,700

At December 31, 1996 impaired loans include mortgage loans on which principal and interest payments were in arrears 90 days or more of $22.9 million (1995 - $63.6 million). Real estate acquired by foreclosure and held for sale was $100.4 million (1995 - $102.8 million), before specific provisions.

In 1996, no additional provisions for credit losses were charged to income. Provisions for credit losses were increased by $41.0 million in 1995 and other components of policy liabilities which were no longer required were reduced by the same amount. Net foregone interest and principal losses charged to provisions for credit losses in 1996 were $39.8 million (1995 - $18.5 million).

4 Policy liabilities

a Policy liabilities are accounted for on the following basis:

Policy liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Policy liabilities are determined using accepted actuarial practice under the policy premium method.

The process of determining policy liabilities necessarily involves estimations of future experience. The risk of deviation from best estimates varies in proportion to the length of the estimation period and the potential volatility of each component. Best estimate assumptions are therefore adjusted by margins for adverse deviation. At inception of a policy, these margins result in an increase in policy liabilities and a reduction in the amount of income that otherwise would be recognized. On participating policies, margins for adverse deviation are reduced to the extent that adverse experience would result in a reduction in the amount of dividends paid. With the passage of time, and resulting reduction in estimation risk, these margins are released into income. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in income immediately. Policy liabilities include liabilities assumed under reinsurance contracts and are reduced by liabilities ceded to reinsurers.

The nature and method of determining the more significant assumptions made by the Company in the computation of policy liabilities are described below:

(i) Policy claims and benefits

The Company bases estimates of the amount and timing of future claims and benefit payments on its experience and that of the industry over extended periods. Some deviation from the pattern of claims and benefit payments indicated by past experience is probable.

(ii) Policy terminations

Although insurance policies generally require payment of periodic premiums over their full term, many policyholders will allow their policies to terminate by choosing not to continue to pay premiums. The Company bases its estimate of future policy termination rates on previous experience for each product. On certain products, higher termination rates than expected could result in an increase in the cost per policy of maintaining policies above levels assumed in the determination of policy liabilities. On other products, including certain term life insurance products, lower termination rates than expected could result in higher claims than expected.

(iii) Investment income

The Company manages assets and liabilities by business segment using investment objectives which are appropriate for each line of business. The computation of policy liabilities takes into account expected net investment income on assets supporting policy liabilities, projections of interest rates at which future cash flows can be invested, and anticipated credit losses from asset defaults.

(iv) Operating expenses

Policy liabilities include amounts to provide for the costs of administering policies in force, such as premium collection, adjudication and processing of claims, periodic actuarial valuations, preparing and mailing of policy statements, related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, productivity changes, new business volumes and tax rates.

(v) Policyholder dividends

Policy liabilities include the present value of estimated amounts of future policyholder dividends.

b Policy liabilities consist of:

	1996	1995
Provision for future policy benefits	**4,417,648**	4,591,881
Policyholders' funds on deposit	**181,451**	186,976
Benefits payable and provision for unreported claims	**226,374**	232,745
	4,825,473	5,011,602

c The change in the provision for future policy benefits is as follows:

	1996	1995
Balance, beginning of year	**4,591,881**	5,373,055
Normal changes	**(388,147)**	(673,694)
Acquisition of group pension business (note 2)	**184,192**	-
Foreign currency translation rate changes	**17,222**	(117,580)
Assumption changes	**12,500**	10,100
Balance, end of year	**4,417,648**	4,591,881

Normal changes in the provision for future policy benefits include the effect of new business, claims, surrenders and changes in the provisions in the ordinary course of business.

Assumption changes in 1996 include a reduction for future interest rates reflecting the lower interest rate environment. This resulted in an increase in the provision for future policy benefits of $11.8 million. In 1995, the most significant assumption change was a reduction in lapse rates for the Company's level premium term product. This change increased the provision for future policy benefits by $11.2 million.

(tabular amounts in thousands of dollars)

d Policy liabilities by major line of business and geographic territory at December 31, 1996 consist of:

	canada	united states	other	total
Individual participating life insurance	536,190	812,268	469,968	1,818,426
Individual non-participating life and health insurance	225,175	693,176	67,065	985,416
Individual pensions	298,388	73,588	2,407	374,383
Group life insurance	76,977	49,852	1,124	127,953
Group health insurance	172,855	43,847	5,666	222,368
Group pensions	464,054	535,460	27,985	1,027,499
Reinsurance	17,023	251,525	880	269,428
	1,790,662	2,459,716	575,095	4,825,473

Amounts above are after deducting liabilities ceded to reinsurers of $332.7 million.

Policy liabilities by major line of business and geographic territory at December 31, 1995 consist of:

	canada	united states	other	total
Individual participating life insurance	513,575	796,573	448,635	1,758,783
Individual non-participating life and health insurance	211,405	677,400	67,754	956,559
Individual pensions	309,135	75,127	2,701	386,963
Group life insurance	88,091	58,996	1,360	148,447
Group health insurance	158,920	56,605	5,228	220,753
Group pensions	333,882	888,741	38,174	1,260,797
Reinsurance	17,837	257,868	3,595	279,300
	1,632,845	2,811,310	567,447	5,011,602

Amounts above are after deducting liabilities ceded to reinsurers of $282.7 million.

e The Company follows a policy of reinsuring coverage in excess of its retention limit at the time the risk is accepted. The maximum claim for which the Company is liable is $5.0 million on total claims arising from any one event and $1.5 million, in either Canadian or U.S. currency, of life insurance on any one life. The Company remains primarily liable to the beneficiaries for the full amount of coverage on the policies issued, and claims in excess of these limits are recoverable by the Company from the reinsurers.

5 Convertible subordinated debentures

On July 31, 1995, the Company issued $75.0 million of Series A Debentures and $75.0 million of Series B Debentures which mature on July 31, 2094 and July 31, 2030, respectively. The debentures bear interest at a rate (to be reset quarterly and paid semi-annually) equivalent to the yield on 90 day bankers' acceptances plus 105 basis points. The Company has entered into an interest rate swap contract to reduce the effect of fluctuations in short-term interest rates on the interest expense on the convertible subordinated debentures. The swap effectively fixes the interest rate on $50.0 million of these debentures at 6.25% until October 29, 1999.

The debentures are convertible at the option of the holders into Common Shares at a price of $65.00 per share until July 31, 2005. The debentures may be redeemed by the Company at any time after July 31, 2000. In the event the Company redeems some or all of the debentures, the holders of the redeemed debentures will be provided with a warrant which will entitle the holder to subscribe at $65.00 per share for the same number of Common Shares as would have been received upon conversion of the redeemed debentures. Such warrants would be exercisable until July 31, 2005.

The debentures are subordinate to all policy liabilities and other indebtedness of the Company.

6 Participating policyholders' and shareholders' equity

a The authorized share capital of the Company at December 31, 1996 and 1995 consists of:

(i) an unlimited number of Class I Preferred Shares, issuable in series, provided that the aggregate consideration received by the Company for all Class I Preferred Shares issued and outstanding at any time shall not exceed $300.0 million,

(ii) an unlimited number of Second Preferred Shares, issuable in series, provided that the aggregate consideration received by the Company for all Second Preferred Shares issued and outstanding at any time shall not exceed $250.0 million,

(iii) one Fifth Preferred Share, and

(iv) an unlimited number of Common Shares, provided that the aggregate consideration received by the Company for all Common Shares issued and outstanding at any time shall not exceed $1.0 billion.

(tabular amounts in thousands of dollars)

b Participating policyholders' and shareholders' equity consists of:

	1996	1995 (restated)
Participating policyholders' equity		
Retained earnings	10,161	1,660
Foreign currency translation adjustment	7,243	9,325
Total participating policyholders' equity	17,404	10,985
Shareholders' equity		
Share capital		
3,652,599 Class I Cumulative Preferred Shares,		
Series A (1995 - 3,669,899)	91,315	91,747
1 Fifth Preferred Share	—	—
3,456,545 Common Shares (1995 - 3,454,545)	251,325	251,227
	342,640	342,974
Retained earnings	49,578	19,282
Foreign currency translation adjustment	49,628	45,040
Total shareholders' equity	441,846	407,296
Total participating policyholders' and shareholders' equity	459,250	418,281

c The Class I Cumulative Preferred Shares, Series A, are entitled to receive fixed quarterly cumulative preferential cash dividends at a rate of $2.50 per year. The Class I Preferred Shares are redeemable at the option of the Company at $25.00 per share. During 1996, the Company purchased for cancellation 17,300 (1995 - 4,000) Class I Preferred Shares for average cash consideration of $24.80 (1995 -$24.43) per share.

d The holder of the Fifth Preferred Share has the right to vote separately as a class with respect to any proposal to change the location of the Company's head office operations to a place not in the Province of Saskatchewan. The Fifth Preferred share is redeemable by the Company after December 31, 2031 at a price of $1.00.

e A total of 200,000 Common Shares has been reserved under a stock option plan. Options on 131,000 (1995 - 140,000) Common Shares are outstanding and have exercise prices from $48.00 to $52.00 per share with expiry dates from June 2002 to August 2006. During 1996, 2,000 (1995 - nil) Common Shares were issued on the exercise of options for cash consideration of $98,000.

Fully diluted earnings per share, which assume conversion of the convertible subordinated debentures and options, have been calculated as $6.72 for the year ended December 31, 1996 (1995 - $7.75).

f Changes in retained earnings consist of:

	participating policyholders'		shareholders'	
	1996	**1995**	**1996**	**1995**
Balance, beginning of year as previously reported	**46,660**	38,355	**19,282**	(10,124)
Settlement of litigation (note 10)	**(45,000)**	(45,000)		
Balance, beginning of year as restated	**1,660**	(6,645)	**19,282**	(10,124)
Net income	**8,501**	8,305	**39,431**	38,591
Preferred shareholders' dividends			**(9,135)**	(9,185)
Balance, end of year	**10,161**	1,660	**49,578**	19,282

7 Taxes

Tax expense of $22.3 million (1995 - $20.8 million) includes taxes on premiums, income and capital.

Income taxes are accounted for using the taxes payable method, whereby income taxes are provided on taxable income rather than on financial statement income. Income taxes, including Canadian investment income tax of $1.9 million (1995 - $2.0 million), were $4.0 million (1995 - $5.2 million). The Company has utilized deductions carried forward from prior years, where available, to eliminate income tax expense that would otherwise be incurred.

8 Retirement arrangements

The Company maintains several retirement arrangements, including defined benefit and defined contribution plans, for its employees. Pension costs related to current service are charged to income as services are rendered. Variations between plan experience and actuarial estimates as well as past service costs, if any, are amortized to income over the estimated average remaining service lives of the employee groups covered by the plans.

Pension expense for the year was $4.5 million (1995 - $4.5 million). The market value of assets in registered defined benefit plans was $97.3 million (1995 - $91.0 million). Based on the most recent actuarial valuation of the registered defined benefit plans, the aggregate present value of the accrued pension benefit was $80.8 million (1995 - $83.0 million).

(tabular amounts in thousands of dollars)

9 Segmented information

Revenue, income before policyholders' dividends and assets by geographic region are as follows:

	1996	1995
Revenue		
Canada	**466,465**	441,181
United States	**707,156**	756,437
Other	**141,905**	132,545
	1,315,526	1,330,163
Income before policyholders' dividends		
Canada	**13,257**	4,121
United States	**76,021**	82,631
Other	**9,555**	8,276
	98,833	95,028
Assets		
Canada	**2,282,432**	2,102,622
United States	**2,878,845**	3,253,548
Other	**639,039**	608,048
	5,800,316	5,964,218

10 Contingent liabilities

The Company is a defendant in a number of lawsuits involving the sale on a 'vanishing premium' basis of participating whole life insurance policies. These lawsuits, many of which were commenced in prior years, relate primarily to the sales of insurance policies during the 1980s. Many life insurers are defendants in similar lawsuits brought by purchasers of such policies.

In 1996, preliminary approval was received from the U.S. Federal Court for a settlement which has been agreed between the Company and counsel representing a class of U.S. policyholders who purchased such policies from the Company. The minimum cost to the Company of the settlement is US $27.0 million. While this is also the Company's best estimate of the likely cost, it is possible, depending on claims by individual policyholders within the class, that the cost could exceed this estimate. The Court has scheduled a hearing to consider final approval of this settlement on February 28, 1997. Individual policyholders must indicate prior to February 13, 1997 whether they wish to be excluded from the class action settlement.

Retained earnings as at January 1, 1995 has been reduced by $45.0 million representing the cost of the above-noted and other settlements reached during 1996 together with the cost of administering the settlements. Accrued expenses and other liabilities have been increased by the same amount as at January 1, 1995.

The Company believes it has acted responsibly and appropriately at all times with respect to policies sold on a 'vanishing premium' basis and has agreed to the above-noted settlement in order to avoid the cost, delays and uncertainty involved in protracted litigation of this issue. The Company will vigorously contest all lawsuits not resolved by the class settlement while at the same time seeking settlements to avoid the uncertainty and delay of litigation. The U.S. Federal Court has ruled that any 'vanishing premium' lawsuits in which the Company is named as a defendant which commenced after October 25, 1995 must be heard in Federal Court on a non-jury basis. A number of lawsuits commenced prior to October 25, 1995 are subject to state court processes.

It is not possible to predict the ultimate outcome of the litigation, or to estimate additional costs which may result. As required by new Canadian accounting standards which come into effect for the year ending December 31, 1997, any costs of future settlements or judgments that may arise will be reflected in net income of the year in which they are determined.

five year financial summary

(millions of dollars)

	1996	1995	1994	1993	1992
OPERATING RESULTS					
Revenue					
Premiums	**842**	811	885	923	937
Investment income	**458**	508	585	664	684
Other	**16**	11	17	19	19
	1,316	1,330	1,487	1,606	1,640
Policy benefits	**954**	981	1,091	1,278	1,311
Expenses	**263**	254	295	275	325
	99	95	101	53	4
Participating policyholders' dividends	**51**	48	56	56	55
Net income (loss)	**48**	47	45	(3)	(51)
FINANCIAL POSITION					
Assets					
General funds	**5,800**	5,964	6,746	7,473	8,433
Segregated funds	**800**	664	752	1,944	1,711
	6,600	6,628	7,498	9,417	10,144
Equity					
Participating policyholders'	**17**	11	5	(10)	(3)
Shareholders'	**442**	407	385	349	353
	459	418	390	339	350
PER COMMON SHARE (IN DOLLARS)					
Earnings (loss)	**8.77**	8.51	7.82	(0.78)	(19.59)
Fully diluted earnings	**6.72**	7.75			
Book value	**101.46**	91.33	84.70	52.50	52.92

Note: Equity at January 1, 1992 has been restated for the cost of legal settlements reached during 1996 relating to the sale of participating whole life insurance policies primarily in the 1980s.

The Board of Directors and management of Crown Life have established appropriate governance practices to assure the effective and profitable development and operation of the Company's business and its long-term financial strength. As a financial institution incorporated in Canada, the Company adheres to specific governance practices prescribed by the federal Insurance Companies Act. The Board approves the strategic plan and annual operating plans of the Company, selects and evaluates the Chief Executive Officer, nominates Directors, oversees the conduct of the organization, and reviews the financial performance and condition of the Company. The Company has developed documented authorities which assign accountability for principal functions, including delegation of authority limits by the Board to the President and Chief Executive Officer and to officers and staff within the Company.

Corporate Governance is overseen by the Corporate Governance Committee of the Board of Directors which ensures that procedures have been established for the proper and effective governance by the Board of the business and affairs of the Company. The Committee is also responsible for nominating Directors. The Board has decided that effective governance is supported by a Board with a number of Directors that allows the involvement of individual Directors in discussion at Board meetings and effective decision making, and has set the number of Directors at 12. Eight Directors are elected by holders of Common Shares and four Directors are elected by participating policyholders. A majority of Board Members are unrelated to the Company. Board members are introduced to the business of insurance through briefings and by assignment to committees so that all Directors have opportunities to contribute to Board and committee deliberations. The committees of the Board provide the essential framework for governance.

The Executive Committee meets on an ad-hoc basis and acts for the Board when it is not practical or possible for the full Board to meet.

The Operations and Systems Committee meets quarterly to review the Company's strategies, plans, and progress with respect to business growth and systems renewal.

The Audit Committee meets quarterly to review the financial statements and proposed disclosures of financial information before they are submitted to the Board or publicly released. It also monitors internal control procedures and reviews any transactions which could adversely affect the Company. The Committee consists entirely of unaffiliated Directors. In performing its duties, the Committee meets regularly with the Company's Chief Financial Officer, Chief Actuary, Chief Internal Auditor and external auditors.

The Investment Committee approves the Company's investment and lending policies, standards and procedures, including limits on concentrations applicable to individual borrowers, industries and geographic areas. The Committee also approves the delegation of authorities to investment officers. The Committee meets quarterly to review compliance with established policies. All investment transactions are reported to the Committee quarterly.

The Conduct Review Committee establishes procedures for the review of transactions with related parties and meets as required to review material transactions with related parties. The Committee also establishes and monitors procedures to deal with conflicts of interest and resolution of customer complaints. The Committee consists entirely of unaffiliated Directors.

The Human Resources Committee approves the compensation policy of the Company, ensures that the relationship between the senior management performance and compensation is appropriate, monitors succession planning for senior officers and reviews all executive appointments and reassignments. The Committee meets at least three times a year.

The Company has reviewed the guidelines set out in the December 1994 Report of the Toronto Stock Exchange Committee on Corporate Governance and has concluded that its corporate governance practices are in substantial compliance with guidelines.

board of directors

Paul J. Hill [14567]
Chairman
Regina, Saskatchewan
President
McCallum Hill Limited

Frederick B. Ladly [12457]
Vice-Chairman
Township of Bathurst, Ontario
Chief Executive Officer and Deputy Chairman
Extendicare Inc.

Brian A. Johnson [14567]
President and Chief Executive Officer
Regina, Saskatchewan

Hon. Allan E. Blakeney, [246]
P.C., O.C., Q.C.
Saskatoon, Saskatchewan
Retired

Hon. James J. Blanchard [26]
Beverly Hills, Michigan
Partner
Verner, Liipfert, Bernhard, McPherson & Hand

Beverley A. Brennan, F.C.A. [23]
Saskatoon, Saskatchewan
Vice-President, Finance
Philom Bios Inc.

H. Michael Burns [56]
Maple, Ontario
Deputy Chairman
Extendicare Inc.

David J. Hennigar [26]
Bedford, Nova Scotia
Chairman
Extendicare Inc.

C. Dennis Knight [267]
Phoenix, Arizona
Chief Executive Officer
Communities Southwest L.L.C.

Robert H. Lee [36]
Vancouver, British Columbia
President
Prospero International Realty Inc.
Chancellor Emeritus
University of British Columbia

Alvin G. Libin [356]
Calgary, Alberta
President
Balmon Holdings Ltd.

D. Murray Wallace [2357]
London, Ontario
President
Avco Financial Services
Canada Limited

Honorary Directors
M.A. Cooper
J.H. Devlin
R.C. Dowsett
J.J. Jodrey
J.S. Palmer, Q.C.

1 Executive Committee
2 Audit Committee
3 Conduct Review Committee
4 Corporate Governance Committee
5 Human Resources Committee
6 Investment Committee
7 Operations and Systems Committee

executive management

Brian A. Johnson
President and Chief Executive Officer

Gareth W. Evans
Senior Vice-President and Chief Actuary

John D. Harrison
Senior Vice-President,
Individual Insurance Operations

William J.A. Heidt
Senior Vice-President,
Employee Benefits and Reinsurance Operations

Alan M. Rowe
Senior Vice-President and Chief Financial Officer

Corporate Operations
Sheila A. Culton
Corporate Secretary

L. Jill Hilsden
Vice-President and Controller

Nigel A.G. Howard
Vice-President, Corporate Development

J. Alexander Lowden
Vice-President and Chief Medical Officer

Pamela J. MacIntyre
Vice-President, Human Resources

B. John Manistre
Vice-President and Appointed Actuary

Mark S. Ripplinger
Vice-President and Chief Information Officer

Insurance Operations
Group
Gavin M. Laws
Vice-President, Sales and Marketing

Daniel Martineau
Vice-President, Underwriting and Pricing

Chris A. Selness
Vice-President and Program Director,
CrownVista

Individual
Christopher N. Duncan-Webb
Vice-President and Program Director, ECLIPSE

Eugene S. Koster
Vice-President,
U.S. Individual Insurance

Ronald K. MacTavish
Vice-President, Sales,
Canada Individual Insurance

Pension & Investment Management
Barbara E. Laing
Vice-President, Systems

John M. Mullis
Vice-President, Sales and Field Operations,
U.S. Pensions

Reinsurance
Rémi H. Houle
Vice-President, Reinsurance

Investment Operations
Christopher J. Anderson
Vice-President, Equities and Bonds

Stephan R. von Buttlar
Vice-President, Mortgages and Real Estate

Crown Life Investment Management Inc.
Brian A. Johnson
Chairman

Christopher J. Anderson
President

as of February 11, 1997

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SHAREHOLDER INFORMATION

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The Montreal Exchange

Transfer Agent
Montreal Trust Company of Canada

Shareholder Inquiries
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